

**MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF
MT. PLEASANT, IOWA**

Independent Auditors' Reports
Financial Statements
and Supplemental Information
Schedule of Findings

June 30, 2007

MT. PLEASANT MUNICIPAL UTILITIES

A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

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MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Board of Trustees and Officials
June 30, 2007

<u>Name</u>	<u>Title</u>	<u>Term Expiration</u>
David Carrick	Chairman of the Board	October, 2009
Richey Dickson	Board Member	October, 2007
Bobby Stull	Board Member	October, 2007
Dan McCabe	Board Member	October, 2009
Harvey Ungerman	Board Member	October, 2011
Lori A. Glanzman	General Manager	
Randall Neff	Treasurer/Business Manager	
David McCoid	Attorney	



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Burlington
Cedar Rapids
Centerville
Fairfield
Oskaloosa
Ottumwa
Pella
Sigourney

Independent Auditors' Report

To the Board of Trustees
Mt. Pleasant Municipal Utilities
Mt. Pleasant, Iowa

We have audited the accompanying Combining Statement of Net Assets of Mt. Pleasant Municipal Utilities – a component unit of the City of Mt. Pleasant, Iowa, as of and for the year ended June 30, 2007, and the related Combining Statement of Revenue, Expenses and Changes in Fund Net Assets, and Combining Statement of Cash Flows. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As explained in Note 2 of the Notes to Financial Statements, property and equipment acquired prior to November 1, 1973 is accounted for and is being depreciated for periods since that date on appraisal values representing fair value as of that date. No depreciation has been recognized for periods prior to November 1, 1973. As explained in Note 3 of the Notes to Financial Statements, balances represented by contributed capital, retained earnings and appraisal increase are accounted for in total rather than being separated into its component parts. These practices, the effect of which is not determinable because municipal property and equipment cost records and equity records are not available, are not in accordance with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of appraisal values of equipment and net assets breakdown as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Mt. Pleasant Municipal Utilities – a component unit of the City of Mt. Pleasant, Iowa, as of June 30, 2007, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2007, on our consideration of the Mt. Pleasant Municipal Utilities' – a component unit of the City of Mt. Pleasant, Iowa, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 25 through 27 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are present herein) and expressed qualified opinions on those financial statements. The supplemental information included in pages 28 through 38 is presented for purposes of additional analysis and is not a required part of the financial statements. The information on pages 29 through 38 has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole. The information on page 28 has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

TD&T Financial Group, P.C.

Mt. Pleasant, Iowa
September 6, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Mt. Pleasant Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased 12.9%, or approximately \$1,035,100, from 2006 to 2007.
- Operating expenses increased 9.5%, or approximately \$723,200, in fiscal 2007 from fiscal 2006.
- Mt. Pleasant Utilities' net assets increased 3.1%, or approximately \$472,900, from June 30, 2006 to June 30, 2007.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Utilities' financial activities.

The Financial Statements consist of a Combining Statement of Net Assets, a Combining Statement of Revenues, Expenses and Changes in Fund Net Assets and a Combining Statement of Cash Flows. These provide information about the activities of Mt. Pleasant Utilities as a whole and present an overall view of the Utilities' finances.

The Financial Statements tell how enterprise services were financed in the short term as well as what remains for future spending.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

The Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Fund Net Assets

One of the most important questions asked about the Utilities' finances is, "Is Mt. Pleasant Utilities as a whole better off or worse off as a result of the year's activities?" The Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Fund Net Assets report information about the Utilities as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Combining Statement of Net Assets presents all of the Utilities' assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the Utilities' net assets may serve as a useful indicator of whether the financial position of Mt. Pleasant Utilities is improving or deteriorating.

The Combining Statement of Revenues, Expenses and Changes in Fund Net Assets presents information showing how the Utilities' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Fund Net Assets report one kind of activity:

- Business type activities, which include the water and the electric departments. These activities are financed primarily by user charges.

FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis below focuses on the net assets and changes in net assets for business type activities.

	Net Assets June 30,	
	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 6,082,543	4,983,870
Capital assets	<u>20,003,069</u>	<u>20,662,774</u>
Total assets	\$ <u>26,085,612</u>	<u>25,646,644</u>
Long-term liabilities	\$ 8,496,606	9,101,079
Other liabilities	<u>1,843,834</u>	<u>1,273,309</u>
Total liabilities	\$ <u>10,340,440</u>	<u>10,374,388</u>
Net assets:		
Restricted	\$ 2,258,318	2,149,005
Unrestricted	<u>13,486,854</u>	<u>13,123,251</u>
Total net assets	\$ <u>15,745,172</u>	<u>15,272,256</u>

Net assets of business type activities increased from fiscal year 2006 by approximately \$472,900, or 3.1%. The largest portion of the Utilities' net assets is the Invested in Capital Assets (e.g., buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used.

**Changes in Net Assets
Year Ended June 30,**

	<u>2007</u>	<u>2006</u>
Revenues:		
Operating revenues:		
Charges for services and sales	\$ 9,068,328	8,033,207
Non-operating revenues:		
Investment earnings	147,842	88,348
Other non-operating revenue	45,788	26,424
Total revenues	<u>9,261,958</u>	<u>8,147,979</u>
Operating expenses:		
Power, pumping and treatment plant	5,952,237	5,294,179
Transmission and distribution	1,307,562	1,275,919
General and administration	1,041,879	1,008,376
Non-operating expenses:		
Interest expense	384,182	408,346
Other non-operating expense	3,182	3,328
Total expenses	<u>8,689,042</u>	<u>7,990,148</u>
Permanent transfer to City of Mt. Pleasant	<u>(100,000)</u>	<u>(87,500)</u>
Increase in net assets	<u>472,916</u>	<u>70,331</u>
Net assets beginning of year	15,272,256	15,201,925
Net assets end of year	\$ <u>15,745,172</u>	<u>15,272,256</u>

INDIVIDUAL MAJOR FUND ANALYSIS

- The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended fiscal 2007 with a \$5,854,017 net asset balance compared to the prior year ending net asset balance of \$5,850,310.
- The Electric Fund, which accounts for the operation and maintenance of the Utilities' electric system, ended fiscal 2007 with a \$9,891,155 net asset balance compared to the prior year ending net asset balance of \$9,421,946.

BUDGETARY HIGHLIGHTS

Over the course of the year, Mt. Pleasant Utilities amended its budget once. The amendment was done in May of 2007. The amendment was needed to cover unplanned expenses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Utilities' capital assets include buildings, improvements, and equipment. Capital assets totaled \$20,003,069 (net of accumulated depreciation) at June 30, 2007. See Note 2 to the financial statements for more information about the Utilities' capital assets.

Construction in progress at June 30, 2007 for electric and water activities consists primarily of new construction in the Mt. Pleasant area.

Debt

At June 30, 2007, long-term debt outstanding was \$8,713,189. Debt decreased as a result of payment of revenue notes.

Additional information about the Utilities' long-term debt is presented in Note 16 to the financial statements.

ECONOMIC FACTORS BEARING ON THE UTILITIES' FUTURE

Several economic factors affected decisions made by the Utilities in setting its fiscal 2008 budget.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Mt. Pleasant Utilities' finances and operating activities. If you have questions about this report or need additional financial information, contact the General Manager, 509 N. Adams, Mt. Pleasant, Iowa.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Net Assets
June 30, 2007

	<u>Assets</u>		
	<u>Light</u>	<u>Water</u>	<u>Total</u>
Current assets:			
Cash	\$ 849,299	-	849,299
Certificates of deposit	351,550	300,166	651,716
Investment in Quad City West	44,338	-	44,338
Receivables:			
Customer	403,988	116,525	520,513
Unbilled usage	396,628	101,656	498,284
Due from water account	117,475	-	117,475
Miscellaneous	365,285	-	365,285
Material and supplies inventory	321,092	95,631	416,723
Prepaid expenses	72,707	66,487	139,194
Total current assets	<u>2,922,362</u>	<u>680,465</u>	<u>3,602,827</u>
Restricted assets:			
Cash	652,014	595,320	1,247,334
Certificates of deposit	349,466	300,166	649,632
Other investments	582,750	-	582,750
Total restricted assets	<u>1,584,230</u>	<u>895,486</u>	<u>2,479,716</u>
Total current and restricted assets	<u>4,506,592</u>	<u>1,575,951</u>	<u>6,082,543</u>
Property and equipment:			
Acquired prior to November 1, 1973, at appraised value	3,099,450	1,584,695	4,684,145
Less: depreciation accumulated since November 1, 1973, computed by the straight-line method	<u>3,099,450</u>	<u>1,439,677</u>	<u>4,539,127</u>
	<u>-</u>	<u>145,018</u>	<u>145,018</u>
Acquired since November 1, 1973, at cost	19,680,832	14,630,368	34,311,200
Less: accumulated depreciation, computed by the straight-line method	<u>9,187,551</u>	<u>5,265,598</u>	<u>14,453,149</u>
	<u>10,493,281</u>	<u>9,364,770</u>	<u>19,858,051</u>
Total property and equipment	<u>10,493,281</u>	<u>9,509,788</u>	<u>20,003,069</u>
Total assets	\$ <u>14,999,873</u>	<u>11,085,739</u>	<u>26,085,612</u>

See accompanying notes to financial statements.

Liabilities and Net Assets

	<u>Light</u>	<u>Water</u>	<u>Total</u>
Current liabilities, payable from current assets:			
Accounts payable and accrued expenses	\$ 557,672	60,608	618,280
Checks in excess of cash	-	735,975	735,975
Due to light account	-	117,475	117,475
Total current liabilities, payable from current assets	<u>557,672</u>	<u>914,058</u>	<u>1,471,730</u>
Long-term liabilities:			
Notes payable	4,347,356	4,149,250	8,496,606
Total long-term liabilities	<u>4,347,356</u>	<u>4,149,250</u>	<u>8,496,606</u>
Current liabilities, payable from restricted assets:			
Customer deposits	106,369	-	106,369
Accrued interest	36,488	12,664	49,152
Notes payable	60,833	155,750	216,583
Total current liabilities, payable from restricted assets	<u>203,690</u>	<u>168,414</u>	<u>372,104</u>
Total liabilities	<u>5,108,718</u>	<u>5,231,722</u>	<u>10,340,440</u>
Net assets, restricted for:			
Improvement account	468,413	306,560	774,973
Contingency account	414,237	-	414,237
Reserve account	638,199	419,256	1,057,455
Sinking account	10,397	1,256	11,653
Unrestricted	<u>8,359,909</u>	<u>5,126,945</u>	<u>13,486,854</u>
Total net assets	<u>9,891,155</u>	<u>5,854,017</u>	<u>15,745,172</u>
 Total liabilities and net assets	 \$ <u>14,999,873</u>	 <u>11,085,739</u>	 <u>26,085,612</u>

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

**Combining Statement of Revenue, Expenses
and Changes in Fund Net Assets
For the Year Ended June 30, 2007**

	<u>Light</u>	<u>Water</u>	<u>Total</u>
Operating revenue:			
Metered sales	\$ 6,645,234	1,528,469	8,173,703
Generation income	751,932	-	751,932
Other sales	38,761	-	38,761
Other revenue	23,141	25,561	48,702
Cut-off notice fee	5,729	1,344	7,073
Sewer and solid waste service fee	14,580	3,420	18,000
Penalty charges and bad debt recoveries	24,427	5,730	30,157
Total operating revenue	<u>7,503,804</u>	<u>1,564,524</u>	<u>9,068,328</u>
Operating expenses:			
Power, pumping and treatment plant	5,187,048	765,189	5,952,237
Transmission and distribution	719,260	588,302	1,307,562
General and administration	843,922	197,957	1,041,879
Total operating expenses	<u>6,750,230</u>	<u>1,551,448</u>	<u>8,301,678</u>
Net operating income	<u>753,574</u>	<u>13,076</u>	<u>766,650</u>
Non-operating revenue:			
Interest income	52,760	12,479	65,239
Interest income - restricted	65,363	17,240	82,603
Gain on sale of assets	44,833	955	45,788
Total other revenue	<u>162,956</u>	<u>30,674</u>	<u>193,630</u>
Non-operating expenses:			
Interest expense - restricted	228,421	155,761	384,182
Miscellaneous contracted services - restricted	500	-	500
Banking fees - restricted	400	2,282	2,682
Total other expenses	<u>229,321</u>	<u>158,043</u>	<u>387,364</u>
Change in net assets	687,209	(114,293)	572,916
Net assets beginning of year	9,421,946	5,850,310	15,272,256
Residual equity transfer	(118,000)	118,000	-
Permanent transfer to City of Mt. Pleasant	<u>(100,000)</u>	<u>-</u>	<u>(100,000)</u>
Net assets end of year	<u>\$ 9,891,155</u>	<u>5,854,017</u>	<u>15,745,172</u>

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows
For the Year Ended June 30, 2007

	<u>Light</u>	<u>Water</u>	<u>Total</u>
Cash flow from operating activities:			
Cash received from customers and users	\$ 7,133,126	1,551,360	8,684,486
Cash received from other revenues	95,140	13,461	108,601
Cash paid to employees for services	908,739	641,891	1,550,630
Cash paid to suppliers	<u>(7,357,312)</u>	<u>(1,239,367)</u>	<u>(8,596,679)</u>
Net cash provided (used) by operating activities	<u>779,693</u>	<u>967,345</u>	<u>1,747,038</u>
Cash flow from capital activities:			
Permanent transfer to city	(100,000)	-	(100,000)
Residual equity transfer	(118,000)	118,000	-
Cash used for notes payable	(350,000)	(258,000)	(608,000)
Purchase of property and equipment	<u>(145,065)</u>	<u>(226,534)</u>	<u>(371,599)</u>
Net cash provided (used) by capital activities	<u>(713,065)</u>	<u>(366,534)</u>	<u>(1,079,599)</u>
Net change in cash	66,628	600,811	667,439
Cash and cash equivalents at beginning of year	<u>2,017,435</u>	<u>(5,491)</u>	<u>2,011,944</u>
Cash and cash equivalents at end of year	\$ <u><u>2,084,063</u></u>	<u><u>595,320</u></u>	<u><u>2,679,383</u></u>

(continued)

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows (Continued)
For the Year Ended June 30, 2007

	<u>Light</u>	<u>Water</u>	<u>Total</u>
Cash flow from operating activities:			
Change in net assets	\$ 687,209	(114,293)	572,916
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:			
Depreciation	637,119	394,186	1,031,305
Bond premium and issuance cost amortization	11,277	-	11,277
Changes in assets and liabilities:			
(Increase) decrease in accrued interest	(2,453)	27	(2,426)
(Increase) decrease in due from other accounts	(9,749)	9,749	-
(Increase) decrease in investment in QCW	(44,338)	-	(44,338)
(Increase) decrease in accounts receivable	(347,199)	(10,050)	(357,249)
(Increase) decrease in unbilled usage	(13,731)	(12,863)	(26,594)
(Increase) decrease in inventories	(2,577)	6,122	3,545
(Increase) decrease in prepaid expense	2,356	3,219	5,575
Increase (decrease) in customer deposits	10,860	-	10,860
Increase (decrease) in accounts payable and accrued expenses	(149,081)	(44,727)	(193,808)
Increase (decrease) in checks in excess of cash	<u>-</u>	<u>735,975</u>	<u>735,975</u>
Net cash provided (used) by operating activities	<u>779,693</u>	<u>967,345</u>	<u>1,747,038</u>
Cash flow from capital activities:			
Permanent transfer to city	(100,000)	-	(100,000)
Residual equity transfer	(118,000)	118,000	-
Cash used for notes payable	(350,000)	(258,000)	(608,000)
Purchase of property and equipment	<u>(145,065)</u>	<u>(226,534)</u>	<u>(371,599)</u>
Net cash provided (used) by capital activities	<u>(713,065)</u>	<u>(366,534)</u>	<u>(1,079,599)</u>
Net change in cash	66,628	600,811	667,439
Cash and cash equivalents at beginning of year	<u>2,017,435</u>	<u>(5,491)</u>	<u>2,011,944</u>
Cash and cash equivalents at end of year	\$ <u><u>2,084,063</u></u>	<u><u>595,320</u></u>	<u><u>2,679,383</u></u>

(continued)

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Combining Statement of Cash Flows (Continued)
For the Year Ended June 30, 2007

	<u>Light</u>	<u>Water</u>	<u>Total</u>
Cash and cash equivalents at end of year consists of:			
Current assets:			
Cash	\$ 849,299	-	849,299
Restricted assets:			
Cash	652,014	595,320	1,247,334
Other investments	<u>582,750</u>	<u>-</u>	<u>582,750</u>
Total cash and cash equivalents at end of year	\$ <u><u>2,084,063</u></u>	<u><u>595,320</u></u>	<u><u>2,679,383</u></u>

See accompanying notes to financial statements.

MT. PLEASANT MUNICIPAL UTILITIES A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements June 30, 2007

Note 1 – Significant Accounting Policies

The Mt. Pleasant Municipal Utilities is a component unit of the City of Mt. Pleasant, Iowa. It was first formed in 1897 and operates under a trustee form of government provided by the Code of Iowa. A five-member board of trustees is appointed by the City Council of Mt. Pleasant to six year staggered terms. The Utilities provides electric and water service to citizens, businesses, industry and other entities in Mt. Pleasant and surrounding areas.

Reporting Entity

For financial reporting purposes, Mt. Pleasant Municipal Utilities has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Utilities has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utilities. These financial statements present the Mt. Pleasant Municipal Utilities and there are no component units to be presented. The Utilities is legally separate, but financially accountable to the City of Mt. Pleasant. The Mt. Pleasant City Council appoints the board and the Utilities' legal budget is subject to approval by the City Council. The financial statements of the Mt. Pleasant Municipal Utilities are prepared in accordance with accounting principles generally accepted in the United States of America.

Customer Accounts and Unbilled Usage

Accounts receivable are recorded at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Inventories

The method used to figure the carrying value of inventories is the lower of average cost or market. Information as to the accounting policies relative to the carrying value of property and equipment, fund balances and the recognition of income from the services sold to the City is included in the other Notes to Financial Statements.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2007

Note 1 – Significant Accounting Policies (Continued)

Restricted Assets

Funds set aside for payment of revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

General and Administrative

The allocation of general and administrative expenses and penalty income on the Combining Statement of Revenue, Expenses and Changes in Fund Net Assets are allocated 81% and 19% to the Light and Water Funds, respectively.

Cash Equivalents

For purposes of the Combining Statement of Cash Flow, the Utilities considers all highly liquid investments, including restricted assets, with maturity of three months or less when purchased to be cash equivalents.

Measurement Focus and Basis of Accounting

The Utilities maintains its financial records on the accrual basis, which is the basis for the financial statements. The accrual basis of accounting recognizes revenues when earned rather than received. Expenses are recognized when incurred.

The proprietary funds of the Utility apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities' Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2007

Note 1 – Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting

The Utilities adopts an accrual basis budget for operating purposes. The Utilities then submits a cash basis (legal) budget to the City Council for approval in the City's budget process. The legal budget may be amended during the year utilizing the statutory procedures available to the City.

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements did not exceed the amount budgeted.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 – Property and Equipment Accounting Policies

Vanguard Appraisals, Inc., an appraisal company, inspected the property and equipment of the Light and Water Funds and computed the appraised value based on market conditions as of November 1, 1973. Property and equipment acquired prior to November 1, 1973 is being accounted for on the basis of those appraised values. The appraised value of the depreciable property and equipment is being depreciated by the straight-line method over its estimated remaining useful life on November 1, 1973.

Complete property and equipment cost records are not available, making it impossible to determine the effect of the use of appraised values on the presentation of financial position and results of operations.

Accounting for property and equipment on the basis of appraised values is not in accordance with accounting principles generally accepted in the United States of America.

Property and equipment acquired subsequent to November 1, 1973, is accounted for on the basis of cost. Depreciation is computed by the straight-line method based on the estimated useful life of the property and equipment. Detail of property and equipment at June 30, 2007 by category is as follows:

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2007

Note 2 — Property and Equipment Accounting Policies (Continued)

<u>At Appraised Value</u>	<u>Light Fund</u>	<u>Water Fund</u>
Buildings	\$ 598,000	146,000
Production equipment	1,653,400	504,300
Distribution equipment	809,400	917,200
Machinery and equipment	30,250	12,995
Office furniture and fixtures	8,400	4,200
Total	\$ <u>3,099,450</u>	<u>1,584,695</u>
<u>At Cost</u>	<u>Light Fund</u>	<u>Water Fund</u>
Land	\$ -	131,975
Land improvements	23,653	-
Edr treatment plant	-	6,149,810
Buildings	362,552	1,274,468
Production equipment	9,862,925	734,242
Distribution system	6,989,543	3,517,417
Water tower	-	1,265,146
Machinery and equipment	677,890	643,418
Transportation equipment	150,727	-
Office furniture and fixtures	164,214	58,374
Consultant services	1,125,318	855,518
Steam supply line	42,667	-
Computer	258,640	-
Leasehold improvements	22,703	-
Total	\$ <u>19,680,832</u>	<u>14,630,368</u>

The land on which the Utilities' general offices, power, and water plants are located is owned by the City of Mt. Pleasant, Iowa. The Utilities paid the City \$48,000 for the permanent use of the land. However, see Note 4 regarding electricity, water and related services furnished to the City without charge.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2007

Note 3 – Contributed Capital, Net Assets and Appraisal Increase

Available accounting records are not adequate to make it possible to separately identify and account for contributed capital, net assets and the appraisal increase of property and equipment. As a result, these separate elements of the net assets of the Light and Water Accounts are grouped for financial statement presentation. The combined presentation of these components of net assets is not in accordance with accounting principles generally accepted in the United States of America.

Note 4 – Donated Electricity and Water

The municipal parks, city hall and other municipally operated facilities in the City of Mt. Pleasant are not billed for electricity and water usage, service and materials provided them during the year. The meters from these facilities are read monthly and the resulting amount computed at normal rates is considered to be a donation to the City. During the year ended June 30, 2007, services donated to the City totaled \$183,991 and \$18,587 for the Light and Water Funds, respectively. No revenue has been recognized in the financial statements for these amounts.

Note 5 – Cash and Pooled Investments

The Municipal Utilities' deposits at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Municipal Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Municipal Utilities' had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Note 6 – Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2007

Note 6 – Pension and Retirement Benefits (Continued)

Plan members are required to contribute 3.70% of their annual covered salary and the Utilities is required to contribute 5.75% of covered salary. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$89,327, \$86,210 and \$82,603 respectively, equal to the required contributions for each year.

Note 7 – Major Suppliers

All of the Utilities' purchased power is from one supplier. The total amount purchased was \$3,767,545 which represents 94.5% of total kilowatt hours generated and purchased.

The current power agreement expires December 31, 2008. A new agreement is subject to approval by both parties.

Note 8 – Compensated Absences

Utilities' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death.

Vacation pay has been accrued in the financial records as a liability for time earned but not used at June 30, 2007. This amount based on June 30, 2007 wages and salaries was \$102,582.

Employee sick leave accumulates up to a maximum of 120 days, which does not vest. However, upon retirement at age 62 or older, or upon death, whichever occurs first, the employee will be paid 100% of their accumulated sick leave to a maximum of 90 days. To receive this benefit, the employee must have applied for and been approved for IPERS retirement benefits or reached age 62 and retired. An employee who quits or is fired is not eligible for payment of accumulated sick leave. The Mt. Pleasant Utilities has adopted a policy to accrue accumulated sick leave for employees they are anticipating will retire within three years. Each year during this three year period, one third of the contingent liability for that employee's accumulated sick leave (up to 90 days) will be accrued in the financial records. On June 30, 2007, the liability was \$23,237.

The maximum additional contingent liability for employee sick leave accruals at June 30, 2007 is approximately \$188,975.

Note 9 – Certified Budget

During the year ended June 30, 2007, disbursements did not exceed the amount budgeted.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2007

Note 10 – Cash Flow Information

Cash paid for interest and taxes for the year ended June 30, 2007 was as follows:

Interest	\$ 387,610
Taxes	-

Note 11 – Accounts Receivable

The Utilities supplies electric and water services to businesses and residents of Mt. Pleasant and surrounding areas. The Utilities grants credit to these customers.

Note 12 – Restricted Cash and Investments

The Utilities by resolution of the board set aside funds on a monthly basis for specific purposes. These funds are only available upon board authorization. The funds set aside for the year ended June 30, 2007 are as follows:

<u>Fund</u>	<u>Purpose</u>	<u>Annual Set-Aside Amount</u>
Light Improvement	Major capital improvement	\$ 120,000
Water Improvement	Major capital improvement	48,000
Water Sinking	Debt service	157,968
Electric Sinking	Debt service	196,673
Light Contingency	Major capital improvement	60,000

Restricted cash and investments consist of the following:

	<u>Interest Earned</u>	<u>Cash and Investments</u>	<u>Fund Equity Designations</u>
Light Improvement Account	\$ 17,410	\$ 424,075	Light Improvement
Contingency Account	15,261	414,237	Contingency
Water Improvement Account	17,240	306,560	Water Improvement
Water Sinking Account	-	169,670	Water Sinking
Water Reserve Account	-	419,256	Water Reserve
Electric Sinking Account	-	107,719	Electric Sinking
Electric Reserve Account	32,692	<u>638,199</u>	Electric Reserve
Total restricted cash		\$ <u>2,479,716</u>	

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2007

Note 12 – Restricted Cash and Investments (Continued)

During the year the following transfers between accounts were made:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Electric Operating	Electric Sinking	\$ 196,673
Electric Operating	Electric Improvement	120,000
Electric Improvement	Electric Operating	106,868
Electric Operating	Electric Contingency	60,000
Electric Reserve	Electric Sinking	32,874
Water Operating	Water Sinking	157,968
Electric Operating	Water Operating	118,000
Water Improvement	Water Operating	61,698
Water Operating	Water Improvement	<u>48,000</u>
	Total	\$ <u>902,081</u>

The board authorized all transfers.

Note 13 – Allowance for Doubtful Accounts

As of June 30, 2007, accounts receivable was shown net of their allowance for doubtful accounts for electric and water of \$4,050 and \$950, respectively.

Note 14 – Risk Management

The Utilities is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. These risks are covered by the purchase of commercial insurance coverage. Settled claims from risks have not exceeded commercial insurance coverage in any of the past three years.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2007

Note 15 – Notes Payable

Annual debt service requirements to maturity for revenue notes per the resolution are as follows:

Year Ending June 30,	<u>Water Revenue Notes</u>				<u>Electric Revenue Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Service Fees</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 267,000	147,254	2,152	416,406	365,000	215,340	580,340
2009	276,000	137,670	2,019	415,689	380,000	198,003	578,003
2010	286,000	127,752	1,881	415,633	400,000	179,953	579,953
2011	296,000	117,478	1,738	415,216	420,000	161,953	581,953
2012	306,000	106,853	1,590	414,443	435,000	142,843	577,843
2013	317,000	95,857	1,437	414,294	460,000	122,615	582,615
2014	328,000	84,473	1,279	413,752	480,000	100,765	580,765
2015	340,000	72,683	1,115	413,798	500,000	77,725	577,725
2016	352,000	60,469	945	413,414	525,000	53,475	578,475
2017	365,000	47,814	769	413,583	555,000	27,750	582,750
2018	377,000	34,718	586	412,304	-	-	-
2019	391,000	21,162	397	412,559	-	-	-
2020	404,000	7,130	201	411,331	-	-	-
	<u>\$ 4,305,000</u>	<u>1,061,313</u>	<u>16,109</u>	<u>5,382,422</u>	<u>4,520,000</u>	<u>1,280,422</u>	<u>5,800,422</u>

The resolution providing for a loan agreement between the Mt. Pleasant Utilities and the Department of Natural Resources, and securing the payment of \$5,934,000 Water Revenue Capital Loan Notes, Series 1999 include the following provisions:

All revenues were deposited in a water revenue account. From the water revenue account, transfers may be made to the following accounts:

1. Monthly transfers to cover the operations and maintenance of the water system plus 1/12th of any annual system cost into an operations and maintenance account.
2. Monthly transfers equal to 1/12th of the next principal payment and 1/6th of the next interest payment into a water sinking account.
3. Monthly transfers equal to a reserve account requirement which is 25% of the amount to be deposited in the water sinking account, to be deposited into a water reserve account.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2007

Note 15 – Notes Payable (Continued)

The Utilities issued electric revenue bonds in an aggregate principal amount of \$6,415,000 dated May 1, 2001. Bond issuance costs were capitalized and netted with bond premium. The unamortized costs were \$117,272 at June 30, 2007. The unamortized premium was \$5,461 at June 30, 2007. The bonds are shown net of the unamortized costs and premium on the balance sheet. The net unamortized costs and premium will be amortized over the life of the bonds.

All revenues were deposited in the electric revenue account. After reserving an adequate sum as working capital for the system, the following payments only shall be made:

1. All reasonable and proper expenses of operating, maintaining and repairing the system.
2. Monthly transfers equal to 1/12th of the next principal payment and 1/6th of the next interest payment into an electric sinking account.
3. Monthly transfers into debt service reserve account such sum, but not in excess of amounts deposited in the sinking account as may be necessary and available, to make up any deficiency in the debt service reserve account requirement.
4. Monthly into repairs and replacement account an amount equal to \$1,000 unless and until the balance on deposit in the repairs and replacement account is equal to \$50,000.

In connection with the issuance of the electric revenue bonds, series 2001, the Utilities has an investment agreement with AIG Matched Funding Corp. The agreement is to invest \$582,750 to maintain a reserve fund pursuant to the bond resolution.

During the year ended June 30, 2007, the City was in compliance with the revenue note provisions.

Note 16 – Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	<u>Water</u> <u>Revenue Notes</u>	<u>Electric</u> <u>Revenue Notes</u>	<u>Total</u>
Balance beginning of year	\$ 4,563,000	4,870,000	9,433,000
Decreases	<u>258,000</u>	<u>350,000</u>	<u>608,000</u>
Balance end of year	\$ <u>4,305,000</u>	<u>4,520,000</u>	<u>8,825,000</u>
Due within one year	\$ <u>267,000</u>	<u>365,000</u>	<u>632,000</u>

Note 17 – Related Party Transactions

The Utilities had business transactions between the Utilities and Utility employees, totaling \$2,651 during the year ended June 30, 2007.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Financial Statements (Continued)
June 30, 2007

Note 18 – Transfer of Funds to City

Beginning in 2003, the Utilities was required to transfer funds to the general fund of the City of Mt. Pleasant. The amount transferred for the year ended June 30, 2007 was \$100,000.

Note 19 – Commitments

The Utilities has no commitments at June 30, 2007.

Note 20 – Quad City West Flowgate Facilities Investment Agreement

The Utilities entered into an agreement authorized by Chapter 28E with The Resale Power Group of Iowa (RPGI). RPGI has entered into the Quad Cities West Agreement which specifically grants investment rights to RPGI in the amount of \$293,637 as a share of joint ownership in transmission line upgrades and improvements to a transmission facility owned and operated by MidAmerican Energy. As a participant in RPGI, the Utilities invested in these investment rights in the amount of \$44,338.

Note 21 – Miscellaneous Receivable

The Utilities sold generated power to MISO (Midwest Independent System Operator) in the amount of \$751,932. The credit is received through a reduction of purchased power costs billed through the Resale Power Group of Iowa. The remaining receivable at June 30, 2007 is \$365,285.

Required Supplementary Information

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis)
Required Supplementary Information
Year Ended June 30, 2007

		Budgeted Amounts		Final to
	Actual	Original	Final	Actual Variance
Receipts	\$ 8,875,690	7,737,000	8,341,352	534,338
Disbursements, including capital outlay	8,108,251	7,708,469	8,314,047	205,796
Net	767,439	28,531	27,305	740,134
Other financing sources, net	(100,000)	(100,000)	(100,000)	-
Beginning balances	2,011,944	3,574,407	3,574,407	(1,562,463)
Ending balances	\$ <u>2,679,383</u>	<u>3,502,938</u>	<u>3,501,712</u>	<u>(822,329)</u>

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Budget to GAAP Reconciliation
Required Supplementary Information
Year Ended June 30, 2007

	Proprietary Funds		
	Enterprise		Accrual Basis
	Cash Basis	Accrual Adjustments	
Revenues	\$ 8,875,690	386,268	9,261,958
Expenditures / expenses	8,108,251	580,791	8,689,042
Net	767,439	(194,523)	572,916
Other financing sources, net	(100,000)	-	(100,000)
Beginning net assets	2,011,944	13,260,312	15,272,256
Ending net assets	\$ 2,679,383	13,065,789	15,745,172

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2007

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. One of the 9 functions includes the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$605,578. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Unaudited Comparative Operating Statistics

	Year Ended June 30,	
	2007	2006
Number of customers served:		
Electricity:		
Residential	3,107	3,119
Commercial	746	707
Electric heat	187	193
Vapor lights	122	121
Special commercial demand	32	32
Steam	1	1
Water	3,584	3,557
Kilowatt hours:		
Number of kilowatt hours purchased	79,037,450	80,655,959
Number of kilowatt hours produced	4,567,281	92,474
	<u>83,604,731</u>	<u>80,748,433</u>
Number of kilowatt hours sold	71,165,343	70,901,276
% of kilowatt hours sold to total produced and purchased	85.12%	87.81%
Number of kilowatt hours for export	2,047,516	-
Number of kilowatt hours for internal use	4,410,334	4,751,883
Number of kilowatt hours donated to city	2,995,590	2,895,695
	<u>9,453,440</u>	<u>7,647,578</u>
Gallons:		
Number of gallons pumped	582,580,100	645,262,500
Number of gallons billed	437,794,600	468,899,618
% of gallons billed to total pumped	75.15%	72.67%
Number of gallons for internal use	1,923,224	1,598,851
Number of gallons donated to city	3,598,129	3,159,043
	<u>5,521,353</u>	<u>4,757,894</u>

The foregoing operating statistics are presented on the basis of unaudited records maintained in the Utilities' offices. The amounts and the accuracy of the operating statistics were not investigated by the auditor.

See accompanying independent auditors' report.

2005	2004	2003	2002	2001
3,118	3,150	3,122	3,106	3,094
669	601	580	567	563
197	198	197	203	204
122	121	124	124	90
32	34	32	30	30
1	1	1	1	1
3,523	3,496	3,412	3,385	3,354
74,581,647	73,019,962	71,488,835	70,113,199	74,612,000
1,098,036	4,319,998	3,176,683	47,360	80,160
75,679,683	77,339,960	74,665,518	70,160,559	74,692,160
66,625,233	64,220,459	62,366,918	60,844,890	62,061,269
88.04%	83.04%	83.53%	86.72%	83.09%
-	588,161	1,088,160	-	-
5,244,270	4,837,110	5,418,390	4,335,999	3,986,724
2,746,554	3,585,657	3,062,319	2,397,848	2,231,994
7,990,824	9,010,928	9,568,869	6,733,847	6,218,718
648,979,500	653,780,400	693,672,500	675,764,100	587,141,400
503,789,739	509,100,856	516,204,515	520,524,706	440,081,057
77.63%	77.87%	74.42%	77.03%	74.95%
1,692,676	2,574,280	2,286,362	3,419,619	6,678,597
3,327,028	3,254,534	3,352,101	3,855,091	8,409,082
5,019,704	5,828,814	5,638,463	7,274,710	15,087,679

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Asset Detail
June 30, 2007

	<u>Light</u>	<u>Water</u>	<u>Total</u>
Accounts payable and accrued expenses, payable from current assets:			
Trade accounts payable	\$ 307,390	12,899	320,289
Salaries and wages	120,911	47,709	168,620
Payroll and withholding taxes	25,098	-	25,098
Sales tax payable	1,168	-	1,168
Sewer and trash payable	<u>103,105</u>	<u>-</u>	<u>103,105</u>
Total	\$ <u><u>557,672</u></u>	<u><u>60,608</u></u>	<u><u>618,280</u></u>

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Asset Detail (Continued)
June 30, 2007

		Assets		
		Balance		Balance
		June 30,	Acquisitions	June 30,
		2006	(Eliminations)	2007
Property and equipment:				
Light Fund:				
At appraisal values:				
Buildings	\$	598,000	-	598,000
Generating equipment		1,653,400	-	1,653,400
Distribution system		809,400	-	809,400
Machinery and equipment		30,250	-	30,250
Office furniture and fixtures		8,400	-	8,400
Total	\$	<u>3,099,450</u>	<u>-</u>	<u>3,099,450</u>
At cost:				
Land improvement	\$	23,653	-	23,653
Buildings		362,552	-	362,552
Generating equipment		9,862,925	-	9,862,925
Distribution equipment		6,916,447	39,117	6,955,564
Construction in progress		5,926	33,979	33,979
Machinery and equipment		675,248	2,642	677,890
Transportation equipment		150,727	-	150,727
Office furniture and fixtures		154,610	9,604	164,214
Consultant services		1,125,318	-	1,125,318
Steam supply line		42,667	-	42,667
Computer		192,991	65,649	258,640
Leasehold improvements		22,703	-	22,703
Total	\$	<u>19,535,767</u>	<u>150,991</u>	<u>19,680,832</u>

* See Note 2 of the Notes to Financial Statements regarding accounting for property and equipment.

(continued)

See accompanying independent auditors' report.

Assets		Accumulated Depreciation			Depreciated	
Estimated Life In Years		Balance June 30, 2006	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2007	Cost June 30, 2007
30	\$	598,000	-	-	598,000	-
30		1,653,400	-	-	1,653,400	-
30		809,400	-	-	809,400	-
8-10		30,250	-	-	30,250	-
5		8,400	-	-	8,400	-
	\$	<u>3,099,450</u>	<u>-</u>	<u>-</u>	<u>3,099,450</u>	<u>-</u>
15	\$	20,562	907	-	21,469	2,184
30		162,056	12,025	-	174,081	188,471
10-30		2,396,445	326,645	-	2,723,090	7,139,835
30		3,836,838	226,142	-	4,062,980	2,892,584
		-	-	-	-	33,979
8-10		499,293	45,743	(3,892)	541,144	136,746
5		150,727	-	-	150,727	-
5-10		128,119	12,112	-	140,231	23,983
5		1,124,428	198	-	1,124,626	692
10-30		40,722	498	-	41,220	1,447
3-8		168,540	12,848	3,892	185,280	73,360
5		22,703	-	-	22,703	-
	\$	<u>8,550,433</u>	<u>637,118</u>	<u>-</u>	<u>9,187,551</u>	<u>10,493,281</u>

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Net Asset Detail (Continued)
June 30, 2007

		Assets		
	Balance June 30, 2006	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2007
Property and equipment:				
Water Fund:				
At appraisal values:				
Buildings	\$ 146,000	-	-	146,000
Pumping and filtering equipment	504,300	-	-	504,300
Distribution system	917,200	-	-	917,200
Machinery and equipment	12,995	-	-	12,995
Office furniture and fixtures	4,200	-	-	4,200
Total	\$ 1,584,695	-	-	1,584,695
At cost:				
Buildings	\$ 1,274,468	-	-	1,274,468
Edr treatment plant	6,149,810	-	-	6,149,810
Pumping and filtering equipment	668,769	65,473	-	734,242
Distribution system	3,357,535	158,434	-	3,515,969
Construction in progress	32,266	1,448	(32,266)	1,448
Water tower	1,265,146	-	-	1,265,146
Machinery and equipment	632,578	29,490	(18,650)	643,418
Land	131,975	-	-	131,975
Consultant services	855,518	-	-	855,518
Furniture and fixtures	54,419	3,955	-	58,374
Total	\$ 14,422,484	258,800	(50,916)	14,630,368

* See Note 2 of the Notes to Financial Statements regarding accounting for property and equipment.

See accompanying independent auditors' report.

Assets		Accumulated Depreciation			Depreciated Cost June 30, 2007
Estimated Life In Years	Balance June 30, 2006	Acquisitions (Eliminations)	Trades and (Adjustments)	Balance June 30, 2007	
10-30	\$ 146,000	-	-	146,000	-
21-30	504,300	-	-	504,300	-
40	749,252	22,930	-	772,182	145,018
8-10	12,995	-	-	12,995	-
10	4,200	-	-	4,200	-
	<u>\$ 1,416,747</u>	<u>22,930</u>	<u>-</u>	<u>1,439,677</u>	<u>145,018</u>
10-30	\$ 681,258	35,509	-	716,767	557,701
40	1,094,944	153,745	-	1,248,689	4,901,121
25-40	210,278	24,445	-	234,723	499,519
40	1,129,290	86,606	-	1,215,896	2,300,073
	-	-	-	-	1,448
21-40	395,560	33,591	-	429,151	835,995
5-10	527,363	29,028	(18,650)	537,741	105,677
	-	-	-	-	131,975
5	842,846	3,951	-	846,797	8,721
10	31,453	4,381	-	35,834	22,540
	<u>\$ 4,912,992</u>	<u>371,256</u>	<u>(18,650)</u>	<u>5,265,598</u>	<u>9,364,770</u>

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail
June 30, 2007

	<u>Actual</u>	<u>Operating Budget</u>
Operating expenses:		
Light Fund:		
Power, pumping and treatment plant:		
Supervision salaries	\$ 31,008	29,815
Power plant:		
Fuel, coal and oil	597,331	175,000
Purchased power	3,767,545	3,525,000
Production:		
Labor	209,415	214,800
Chemicals	4,836	10,000
Maintenance:		
Labor	106,351	80,850
Supplies	12,842	12,500
Other:		
Meal allowance	21	100
Miscellaneous	367	1,025
Depreciation	341,856	342,000
Freight	-	100
Miscellaneous contracted service	60,975	72,000
Repairs	3,992	2,000
Education and training	-	200
Insurance	38,457	37,500
Bond issuance cost	11,832	11,832
Books and instructional materials	220	250
Total power, pumping and treatment plant	\$ <u>5,187,048</u>	<u>4,514,972</u>

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2007

	Actual	Operating Budget
Operating expenses:		
Light Fund (continued):		
Transmission and distribution:		
Supervision salaries	\$ 31,008	29,815
Maintenance of line:		
Labor	178,704	194,700
Supplies	64,857	41,920
Maintenance of park and street:		
Lighting:		
Labor	6,468	9,700
Supplies	3,750	5,000
Maintenance of meters:		
Labor	26,004	26,000
Supplies	14,891	15,000
Removing and resetting meters	32,709	27,400
Other:		
Depreciation	282,415	283,500
Vehicle supplies	-	500
Vehicle repair	4,296	4,000
Mileage	-	150
Lodging	385	500
Meals allowance	191	150
Freight	-	100
Miscellaneous contracted services	31,818	80,000
Repairs	274	1,000
Insurance	38,457	37,500
Chemicals	-	200
Miscellaneous	1,220	827
Books and instructional materials	1,339	1,000
Education and training	474	2,500
Total transmission and distribution	\$ <u>719,260</u>	<u>761,462</u>

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2007

	<u>Actual</u>	<u>Operating Budget</u>
Operating expenses:		
Water Fund:		
Pumping and treatment plant:		
Supervision salaries	\$ 30,473	29,945
Maintenance of pumping equipment:		
Labor	254,533	288,836
Supplies	96,390	61,500
Outside analytical services	2,128	2,700
Pumping station expense	6,454	9,000
Insurance	40,238	46,600
Chemicals	73,990	70,000
Depreciation	225,959	225,000
Other pumping and treatment expenses:		
Permits	1,211	1,500
Education and training	1,195	1,000
Books and instructional materials	7	100
Freight	-	100
Miscellaneous	1,745	886
Mileage	495	500
Lodging	172	400
Meal allowance	198	200
Miscellaneous contracted services	23,484	19,500
Repairs	3,270	5,000
Vehicle repairs and supplies	3,247	1,200
	<u>765,189</u>	<u>763,967</u>
Total pumping and treatment plant	\$ <u>765,189</u>	<u>763,967</u>

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2007

	<u>Actual</u>	<u>Operating Budget</u>
Operating expenses:		
Water Fund (continued):		
Transmission and distribution:		
Supervision salaries	\$ 30,444	29,945
Removing and resetting meters	59,212	45,660
Maintenance of mains:		
Labor	155,821	147,370
Supplies	49,918	25,000
Maintenance of meters:		
Labor	6,022	7,770
Supplies	38,569	50,000
Maintenance of hydrants:		
Labor	11,036	11,350
Supplies	2,575	3,000
Other transmission and distribution:		
Vehicle expense	18	1,000
Depreciation	168,227	165,000
Permits	253	400
Education and training	931	1,300
Miscellaneous	4,035	2,892
Mileage	374	250
Lodging	172	300
Meal allowance	356	350
Freight	-	100
Miscellaneous contracted services	11,493	3,000
Repairs	2,753	2,500
Vehicle repairs	5,237	5,000
Analytical service	51	-
Insurance	40,805	46,600
Total transmission and distribution	\$ <u>588,302</u>	<u>548,787</u>

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2007

	Actual	Operating Budget
Operating expenses:		
Light and Water Funds:		
General and administrative:		
Education and training	\$ -	400
Advertising	2,084	2,700
Repairs	180	300
Business meals	147	350
Administrative salaries	151,121	130,760
Administrative supplies	7,089	6,500
Trustee salaries	7,200	7,200
Accounting and collecting labor	164,570	165,780
Computer maintenance and supplies	4,439	5,000
Maintenance agreements	9,728	10,600
Bank charges	78	250
Courtesy	1,842	1,600
Insurance	17,514	17,600
Dues, assessments, and subscriptions	25,555	23,000
Meter reading wages	69,441	62,190
Meter reading supplies	85	100
Provision for doubtful accounts	27,935	32,000
Printing	3,711	4,500
First aid supplies	81	100
Postage	16,413	18,350
Telephone	16,754	17,500
Contractual services	8,660	8,000
Professional fees	18,101	19,900
Payroll tax expense	119,459	120,800
Pension expense (IPERS)	89,327	88,140
Group insurance	210,436	215,350
Mileage	1,784	1,500
Transportation and vehicle expense	25,775	23,250
Options 2000	450	3,000

(continued)

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Expense Detail (Continued)
June 30, 2007

	<u>Actual</u>	<u>Operating Budget</u>
Operating expenses:		
Light and Water Funds (continued):		
General and administrative (continued):		
Use tax expense	12,447	10,000
Safety program	2,393	2,500
Books and instructional materials	-	100
Miscellaneous	2,930	2,530
Lodging	710	1,000
Drug testing	592	750
Economic development	10,000	13,000
Depreciation	<u>12,848</u>	<u>6,500</u>
Total general and administrative	\$ <u><u>1,041,879</u></u>	<u><u>1,023,100</u></u>
 Allocated as follows:		
Electric Fund	\$ 843,922	
Water Fund	<u>197,957</u>	
 Total as above	\$ <u><u>1,041,879</u></u>	

* See Note 1 of the Notes to Financial Statements regarding the allocation method.

See accompanying independent auditors' report.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Note Maturities
June 30, 2007

Water Revenue Note Issued December 1, 1999			Electric Revenue Note Issued May 1, 2001		
Year Ending June 30,	Interest Rate	Amount	Interest Rate	Amount	
2008	3.53	\$ 267,000	4.75	\$ 365,000	
2009	3.53	276,000	4.75	380,000	
2010	3.53	286,000	4.50	400,000	
2011	3.53	296,000	4.55	420,000	
2012	3.53	306,000	4.65	435,000	
2013	3.53	317,000	4.75	460,000	
2014	3.53	328,000	4.80	480,000	
2015	3.53	340,000	4.85	500,000	
2016	3.53	352,000	4.90	525,000	
2017	3.53	365,000	5.00	555,000	
2018	3.53	377,000	-	-	
2019	3.53	391,000	-	-	
2020	3.53	404,000	-	-	
Total		\$ 4,305,000		\$ 4,520,000	

See accompanying independent auditors' report.



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Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Mt. Pleasant Municipal Utilities
Mt. Pleasant, Iowa

We have audited the accompanying financial statements of the business type activities of the Mt. Pleasant Municipal Utilities – a component unit of the City of Mt. Pleasant, Iowa, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 6, 2007. We conducted our audit in accordance with auditing standard generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mt. Pleasant Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Mt. Pleasant Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mt. Pleasant Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Mt. Pleasant Municipal Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of Mt. Pleasant Municipal Utilities' financial statements that is more than inconsequential will not be prevented or detected by Mt. Pleasant Municipal Utilities' internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Mt. Pleasant Municipal Utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mt. Pleasant Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Mt. Pleasant Municipal Utilities' operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Mt. Pleasant Municipal Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Mt. Pleasant Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utilities' responses, we did not audit Mt. Pleasant Municipal Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the citizens of Mt. Pleasant, the officials and employees of Mt. Pleasant Municipal Utilities and other parties to whom the Mt. Pleasant Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Mt. Pleasant Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

TD&T Financial Group, P.C.

Mt. Pleasant, Iowa
September 6, 2007

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Findings
Year Ended June 30, 2007

Part I: Summary of the Independent Auditors' Results:

1. A qualified opinion was issued on the financial statements because of the effects of appraised values of equipment and fund balance breakdown.
2. Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
3. The audit did not disclose any non-compliance which is material to the financial statements.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Findings (Continued)
Year Ended June 30, 2007

Part II: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were noted.

Significant Deficiencies:

II-A-07 Accounting Records – Accounts receivable general ledger control accounts do not match the subsidiary ledger on a month to month basis.

Recommendation – The accounts receivable subsidiary ledger and accounts receivable general ledger control accounts should be reviewed to determine the actual accounts receivable balance.

Response – We will review accounts receivable.

Conclusion – The balancing of a subsidiary ledger to a control account is a basic accounting procedure. Every effort should be made to correct the computer program for this weakness.

II-B-07 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The Utilities could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-C-07 Compensated Absences – The Utilities does not have a vacation or sick leave policy for employees not covered by the Local Union No. 55 contract.

Recommendation – The Utilities should implement a vacation and sick leave policy which covers employees not covered by the Local Union No. 55 contract.

Response – We will review policies for compensated absences.

Conclusion – Response accepted.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Findings (Continued)
Year Ended June 30, 2007

Part III: Other Findings Related to Statutory Reporting:

III-A-07 Certified Budget – Municipal Utilities' budget is filed as part of the City of Mt. Pleasant's budget. The budget was amended by May 31st as required by Chapter 331.435 of the Code of Iowa. Disbursements during the year ended June 30, 2007 did not exceed the amount budgeted.

III-B-07 Questionable Disbursements – We noted no disbursements that were questionable costs.

III-C-07 Travel Expense – No expenditures of Municipal Utilities' money for travel expenses of spouses of Municipal Utilities' officials or employees were noted.

III-D-07 Business Transactions – Business transactions between the Utility and Utility employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Codeworks Software Factory owner Matt Gingerich, stepson of employee	Computer programming and maintenance	\$ 2,306
Jerry Glanzman, spouse of employee	Computer consulting	120
Donna Stott, spouse of employee	Cookies for school tours	141
Jeff Szalma, employee	42 bales of straw	84

In accordance with Chapter 331.342 of the Code of Iowa, the transactions with Jerry Glanzman, Donna Stott, and Jeff Szalma do not appear to represent a conflict of interest since the total was less than \$1,500 during the fiscal year. The transactions with Codeworks Software Factory may represent a conflict of interest as defined in Chapter 331.342 of the Code of Iowa. The Municipal Utilities should consult legal counsel to determine the disposition of this matter.

(continued)

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Schedule of Findings (Continued)
Year Ended June 30, 2007

Part III: Other Findings Related to Statutory Reporting (Continued):

III-E-07 Bond Coverage – Surety bond coverage of Municipal Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-07 Utility Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not..

III-G-07 Revenue Notes – We noted no instances of non-compliance with water or electric note provisions.

III-H-07 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities investment policy were noted.

III-I-07 Economic Development – During the year ended June 30, 2005, the Utilities made a three year pledge to Mainstreet Mt. Pleasant for \$2,500 per year, which may or may not be an appropriate expenditure of public funds since the public benefits to be derived have not been clearly documented.

Recommendation – According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises that the governing body should evaluate the public benefits to be obtained and discuss specific criteria to be considered in documenting the public purpose.

Response – We will evaluate the public benefits and discuss specific criteria to be considered in documenting public purpose.

Conclusion – Response accepted.

MT. PLEASANT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF MT. PLEASANT, IOWA

Staff

This audit was performed by:

Tom L. Holtkamp, CPA, Manager
Jaime Ackles, Staff Accountant